

Editorial

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In the first article of this FMPM issue, Allan A. Zebedee, Eric Bentzen, Peter R. Hansen, and Asger Lunde investigate the reaction of the US equity market to changes in the Fed funds target rate. Using intraday market data, they report that unexpected changes result in a significant and rapid market response while expected changes have no effect.

In the second article, Glen A. Larsen and Bruce G. Resnick develop a return-sign forecasting model with the objective of taking advantage of time-varying risk premia. They find that a logit model based on the lagged marked risk premium can be useful for predicting the return sign of small-cap CRSP portfolios. As an additional test, they compare the model-based timing strategy to a buy-and-hold strategy for a sample of micro-cap mutual funds.

In the third article, Steve Hogan and Mitch Warachka propose a methodology for measuring the relative performance of mutual funds without relying on an exogenously specified benchmark. Using information from the cross-section of funds, they measure selection and timing performance on the basis of fund characteristics such as the exposure to industries, asset classes, countries, or other information available in commercially available mutual fund databases.

The fourth article, written by Holger Kraft and Ralf Korn, contains a theoretical analysis of the agency problem inherent in delegated portfolio management. They show that an agency conflict can be avoided by the right benchmark specification. Under some assumptions, a passive capitalization-weighted benchmark index is shown to be an optimal benchmark specification.

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In the first book review in this issue, Stephan Süß discusses the book titled “Financial Modeling Under Non-Gaussian Distributions” by Eric Jondeau, Ser-Huang Poon, and Michael Rockinger. In the second review, Evert Wipplinger discusses the book “The Volatility Surface: A Practitioner’s Guide” by Jim Gatheral. Both books cover issues that are highly relevant in today’s financial markets.

It is a great pleasure for me to welcome two new board members. *William Fung*, London Business School, and *Christian Schlag*, Goethe University Frankfurt, have joined the board of editors as of this issue. I look forward to their support in providing relevant and high-quality research content to our readers.

Furthermore, I would like to remind you that the annual conference of the Swiss Society for Financial Market Research takes place on April 11, 2008, at the Swiss Exchange (SWX) in Zurich. I look forward to seeing you there.

Finally, I would like to point your attention to the *Report of the Editor 2007* at the end of this issue. In this report, I give a brief overview of the development of the journal in the past year and show our submission and acceptance statistics. Our rejection rate has increased again. Overall, FMPM has accepted less than 20% of the submitted articles. Most articles required two rounds of revisions before they were accepted for publication. The turnaround time for one round is usually less than 3 months. We will continue to welcome authors of high-quality research articles relevant to financial practice to submit their work to FMPM.

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